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105TH CONGRESS
1ST SESSION

H. R. 1684

To increase the unified estate and gift tax credit to exempt small businesses and farmers from inheritance taxes.

IN THE HOUSE OF REPRESENTATIVES

MAY 20, 1997

Mr. SOUDER (for himself, Mr. ENGLISH of Pennsylvania, Mr. WATTS of Oklahoma, Mr. CHABOT, and Mr. HOSTETTLER) introduced the following bill; which was referred to the Committee on Ways and Means

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A BILL

To increase the unified estate and gift tax credit to exempt small businesses and farmers from inheritance taxes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the ''Farmer and Entrepreneur Estate Tax Relief Act of 1997''.

SEC. 2. FINDINGS.

Congress finds the following:

(1) The economy of the United States cannot achieve strong, sustained growth without adequate levels of savings to fuel productive activity. Inad-

equate savings have been shown to lead to lower productivity, stagnating wages and reduced standards of living.

(2) Savings levels in the United States have steadily declined over the past 25 years, and have lagged behind the industrialized trading partners of the United States.

(3) These anemic savings levels have contributed to the country's long-term downward trend in real economic growth, which averaged close to 3.5 percent over the last 100 years but has slowed to 2.4 percent over the past quarter century.

(4) Reforming the estate and gift tax would contribute to the goals of expanding savings and investment, boosting entrepreneurial activity, and expanding economic growth. The estate tax is harmful to the economy because of its high marginal rates and its multiple taxation of income.

(5) The reform of the inheritance tax would increase the growth of the small business sector, which creates a majority of new jobs in our Nation. Estimates indicate that as many as 70 percent of small businesses do not make it to a second generation and nearly 90 percent do not make it to a third.

(6) Reforming the inheritance tax would lift the compliance burden from farmers and family businesses. On average, family-owned businesses spent over $33,000 on accountants, lawyers, and financial experts in complying with the estate tax laws over a 6.5-year period.

(7) Reforming the inheritance tax would benefit the preservation of family farms. Nearly 95 percent of farms and ranches are owned by sole proprietors or family partnerships, subjecting most of these estates to inheritance taxes upon the death of the owner. Due to the capital intensive nature of farming and its low return on investment, many farm estates do not have the necessary liquidity to meet their estate tax liability and are forced to sell their land.

(8) As the average age of farmers approaches 60 years, it is estimated that a quarter of all farmers could confront the inheritance tax over the next 20 years. The auctioning of these productive assets to finance tax liabilities destroys jobs and harms the economy.

(9) Reforming the inheritance taxes would restore a measure of fairness to our Federal tax system. Families should be able to pass on the fruits

of the labor to the next generation without realizing a taxable event.

(10) Despite this heavy burden on entrepreneurs, farmers, and our entire economy, estate and gift taxes collect only about 1 percent of our Federal tax revenues. In fact, the estate tax may not raise any revenue at all, because more income tax is lost from individuals attempting to avoid estate taxes than is ultimately collected at death.

SEC. 3. INCREASE IN UNIFIED ESTATE AND GIFT TAX CREDIT.

(a) ESTATE TAX CREDIT.—

(1) IN GENERAL.—Subsection (a) of section 2010 of the Internal Revenue Code of 1986 (relating to unified credit against estate tax) is amended by striking "$192,800" and inserting "the applicable credit amount".

(2) APPLICABLE CREDIT AMOUNT.—Section 2010 of such Code is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

"(c) APPLICABLE CREDIT AMOUNT.—For purposes of this section, the applicable credit amount is the amount of the tentative tax which would be determined under the rate schedule set forth in section 2001(c) if the amount with respect to which such tentative tax is to be computed were $5,000,000.''

(3) CONFORMING AMENDMENT.—

(A) Section 6018(a)(1) of such Code is amended by striking ''$600,000'' and inserting ''$5,000,000''.

(B) Section 2001(c)(2) of such Code is amended by striking ''$21,040,000'' and inserting ''the amount at which the average tax rate under this section is 55 percent''.

(C) Section 2102(c)(3)(A) of such Code is amended by striking ''$192,800'' and inserting ''the applicable credit amount under section 2010(c)''.

(b) UNIFIED GIFT TAX CREDIT.—Section 2505(a)(1) of the Internal Revenue Code of 1986 (relating to unified credit against gift tax) is amended by striking ''$192,800'' and inserting ''the applicable credit amount under section 2010(c)''.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to the estates of decedents dying, and gifts made, after December 31, 1997.

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